

COMBINED FINANCIAL STATEMENTS

Purdue Pharma L.P. and Associated Companies, PRA Holdings, Inc. and Subsidiaries, Pharma Associates Inc., Pharma Associates L.P., IKUWA Holdings Inc., Purdue Products Inc., Purdue Pharmaceutical Products Inc., Norwell Land Company and Purdue Pharma Manufacturing Inc. Collectively Referred to Herein as The "Companies"
Years ended December 31, 2014 and 2013
With Report of Independent Auditors

Ernst & Young LLP



PUBLICLY FILED PER STIPULATION [ECF 2140]

Purdue Pharma L.P. and Associated Companies, PRA Holdings, Inc. and Subsidiaries, Pharma Associates Inc.,
Pharma Associates L.P., IKUWA Holdings Inc.,
Purdue Products Inc., Purdue Pharmaceutical Products Inc.,
Norwell Land Company and Purdue Pharma Manufacturing Inc.
Collectively Referred to Herein as The “Companies”

Combined Financial Statements

Years ended December 31, 2014 and 2013

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Report of Independent Auditors

The Management and Boards of Directors
Purdue Pharma L.P. and Associated Companies,
PRA Holdings, Inc. and Subsidiaries,
Pharma Associates Inc., Pharma Associates L.P.,
IKUWA Holdings Inc., Purdue Products Inc.,
Purdue Pharmaceutical Products Inc.,
Norwell Land Company and Purdue Pharma Manufacturing Inc.
collectively referred to herein as the "Companies"

We have audited the accompanying combined financial statements of the Companies, which comprise the combined balance sheets as of December 31, 2014 and 2013, and the related combined statements of comprehensive income, equity, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Companies at December 31, 2014 and 2013, and the combined results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

A handwritten signature in black ink that reads 'Ernst & Young LLP'. The signature is cursive and fluid, with 'Ernst & Young' stacked above 'LLP'.

April 1, 2015

The Companies'
 Combined Balance Sheets

| | December 31 | |
|---|-----------------------|--------------|
| | 2014 | 2013 |
| | <i>(In Thousands)</i> | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,081,669 | \$ 827,264 |
| Receivables, net | 157,962 | 166,819 |
| Inventories | 48,741 | 56,842 |
| Prepaid expenses and other current assets | 26,279 | 19,652 |
| Restricted cash | 7,609 | 16,762 |
| Assets held for sale | 17,166 | — |
| Total current assets | <u>1,339,426</u> | 1,087,339 |
| Property and equipment, net | 149,540 | 152,529 |
| Restricted cash | 17,036 | 16,924 |
| Intangible assets, net | 109,247 | 115,909 |
| Goodwill | 23,396 | 23,396 |
| Deferred income taxes | 6,698 | 6,920 |
| Other assets | 23,817 | 23,964 |
| Total assets | <u>\$ 1,669,160</u> | \$ 1,426,981 |
| Liabilities and equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 67,973 | \$ 89,604 |
| Accrued expenses and other liabilities | <u>629,607</u> | 534,255 |
| Total current liabilities | <u>697,580</u> | 623,859 |
| Other liabilities | 190,636 | 163,091 |
| Total liabilities | <u>888,216</u> | 786,950 |
| Commitments and contingencies (Notes 19 and 20) | — | — |
| Equity: | | |
| Common stock | 5 | 5 |
| Additional paid-in capital | 1,388 | 1,388 |
| Common stock subscription receivable | (999) | (999) |
| Partners' capital | 830,740 | 671,455 |
| Retained earnings | 27,931 | 25,893 |
| Accumulated other comprehensive loss | (78,121) | (57,711) |
| Total equity | <u>780,944</u> | 640,031 |
| Total liabilities and equity | <u>\$ 1,669,160</u> | \$ 1,426,981 |

See accompanying notes.

The Companies'
 Combined Statements of Comprehensive Income

| | Year ended December 31 | |
|------------------------------------|-------------------------------|--------------|
| | 2014 | 2013 |
| | <i>(In Thousands)</i> | |
| Net sales | \$ 2,050,551 | \$ 2,094,383 |
| Cost of sales | 292,948 | 273,510 |
| Gross profit | <u>1,757,603</u> | 1,820,873 |
| Operating expenses: | | |
| Selling and promotion | 261,579 | 280,444 |
| General and administrative | 297,937 | 306,348 |
| Research and development | 239,700 | 323,397 |
| Restructuring charges | 36,052 | — |
| Other operating income, net | (38,404) | (95,972) |
| Total operating expenses | <u>796,864</u> | 814,217 |
| Operating income | 960,739 | 1,006,656 |
| Other income: | | |
| Interest income | 152 | 108 |
| Total other income | 152 | 108 |
| Income before taxes | 960,891 | 1,006,764 |
| Income tax provision | 1,568 | 829 |
| Net income | 959,323 | 1,005,935 |
| Other comprehensive (loss) income: | | |
| Employee benefit plans, net of tax | (20,410) | 84,384 |
| Realized gain on investment | — | (97,469) |
| | (20,410) | (13,085) |
| Comprehensive income | \$ 938,913 | \$ 992,850 |

See accompanying notes.

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The Companies'
 Combined Statements of Equity

| | Common Stock | Additional Paid-In Capital | Common Stock Subscription Receivable | Partners' Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total |
|----------------------------------|--------------|----------------------------|--------------------------------------|-------------------|-------------------|--------------------------------------|-------------------|
| (In Thousands) | | | | | | | |
| Balance at December 31, 2012 | \$ 5 | \$ 1,388 | \$ (999) | \$ 839,100 | \$ 21,197 | \$ (44,626) | \$ 816,065 |
| Net income | — | — | — | 1,001,239 | 4,696 | — | 1,005,935 |
| Other comprehensive income | — | — | — | — | — | (13,085) | (13,085) |
| Investment distributions: | | | | | | | |
| Purdue Pharma L.P. | — | — | — | (230,096) | — | — | (230,096) |
| Partners' capital distributions: | | | | | | | |
| Pharma Associates L.P. | — | — | — | (30) | — | — | (30) |
| Norwell Land company | — | — | — | (5,144) | — | — | (5,144) |
| Purdue Pharma L.P. | — | — | — | (933,614) | — | — | (933,614) |
| Balance at December 31, 2013 | 5 | 1,388 | (999) | 671,455 | 25,893 | (57,711) | 640,031 |
| Net income | — | — | — | 957,285 | 2,038 | — | 959,323 |
| Other comprehensive loss | — | — | — | — | — | (20,410) | (20,410) |
| Partners' capital distributions: | | | | | | | |
| Pharma Associates L.P. | — | — | — | (22) | — | — | (22) |
| Norwell Land company | — | — | — | (711) | — | — | (711) |
| Purdue Pharma L.P. | — | — | — | (797,267) | — | — | (797,267) |
| Balance at December 31, 2014 | <u>\$ 5</u> | <u>\$ 1,388</u> | <u>\$ (999)</u> | <u>\$ 830,740</u> | <u>\$ 27,931</u> | <u>\$ (78,121)</u> | <u>\$ 780,944</u> |

See accompanying notes.

The Companies'
 Combined Statements of Cash Flows

| | Year ended December 31 | |
|---|-------------------------------|-------------------|
| | 2014 | 2013 |
| | (In Thousands) | |
| Operating activities | | |
| Net income | \$ 959,323 | \$ 1,005,935 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 31,117 | 31,508 |
| Deferred income taxes | 222 | (354) |
| Loss on disposal of assets | 101 | 26 |
| Gain on investment in marketable securities | – | (138,015) |
| Asset impairments | 7,181 | 50,500 |
| Non-cash restructuring charges | 8,065 | – |
| Changes in operating assets and liabilities: | | |
| Receivables | 8,857 | 54,365 |
| Inventories | 8,101 | (7,834) |
| Prepaid expenses and other assets | (6,480) | 3,924 |
| Accounts payable | (21,631) | 22,165 |
| Accrued expenses and other liabilities | 102,487 | 15,306 |
| Net cash provided by operating activities | <u>1,097,343</u> | <u>1,037,526</u> |
| Investing activities | | |
| Capital expenditures | (46,275) | (27,740) |
| Purchase of patent and product rights | (7,704) | – |
| Decrease in restricted cash | 9,041 | 7,446 |
| Net cash used in investing activities | <u>(44,938)</u> | <u>(20,294)</u> |
| Financing activities | | |
| Distributions to partners | (798,000) | (938,788) |
| Net cash used in financing activities | <u>(798,000)</u> | <u>(938,788)</u> |
| Increase in cash and cash equivalents | 254,405 | 78,444 |
| Cash and cash equivalents at beginning of year | 827,264 | 748,820 |
| Cash and cash equivalents at end of year | <u>\$ 1,081,669</u> | <u>\$ 827,264</u> |
| Supplemental cash flow information: | | |
| Income taxes paid | <u>\$ 3,607</u> | <u>\$ 1,786</u> |

See accompanying notes.

The Companies'
Notes to Combined Financial Statements
December 31, 2014

1. Organization and Basis of Presentation

The accompanying combined financial statements include Purdue Pharma L.P. (PPLP) and Associated Companies, PRA Holdings, Inc. and Subsidiaries, all of which are wholly owned, Pharma Associates Inc., Pharma Associates L.P., IKUWA Holdings Inc., Purdue Products Inc., Purdue Pharmaceutical Products Inc., Norwell Land Company, Purdue Pharma Manufacturing Inc. and which are combined as required by various financing agreements (collectively referred to herein as the Companies). All significant intercompany transactions and accounts have been eliminated.

The Companies primarily develop, manufacture and sell pharmaceutical products. The Companies' products are marketed primarily to the medical and healthcare industries in the United States (U.S.). The Companies are subject to the risks and uncertainties associated with a pharmaceutical company. These risks and uncertainties include, but are not limited to, technological changes, dependence on branded products currently in the marketplace, the successful completion of development efforts and obtaining regulatory approval, compliance with government regulations, patent infringement litigation, product liability litigation, antitrust litigation and competition from current and potential competitors. The Companies continually monitor the business environment and take proactive measures as market conditions dictate.

2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Companies consider all highly liquid instruments, with a maturity of less than 90 days when acquired, to be cash equivalents.

Inventories

Inventories are stated at the lower of cost or market, computed using the first-in, first-out method.

The Companies'

Notes to Combined Financial Statements (continued)

2. Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost and depreciated primarily using the straight-line method over the estimated useful lives of the related assets, as follows:

| | |
|---------------------------------|----------------|
| Buildings | 20 to 40 years |
| Machinery and equipment | 10 years |
| Furniture and fixtures | 10 years |
| Computer software and equipment | 4 or 5 years |
| Leasehold improvements | 3 to 20 years |

Leasehold improvements are depreciated over the lesser of the assets' useful lives or the term of the lease.

Assets classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell. Once classified as assets held for sale, property and equipment are no longer depreciated.

Goodwill and Intangibles

U.S. GAAP requires goodwill and indefinite lived intangible assets to be assessed annually for impairment. The Companies completed the annual impairment test for 2014 in the fourth quarter and concluded that there was no impairment. Future impairment tests will be performed annually in the fourth quarter, or sooner if a triggering event occurs. The Companies have one reporting unit for goodwill impairment testing purposes.

Goodwill and indefinite lived intangibles are stated at cost and not subject to amortization. Finite lived intangible assets are amortized using the straight-line method over the estimated useful lives of the related assets up to eight years.

Long-Lived Asset Impairments

In accordance with U.S. GAAP, the Companies evaluate the carrying value of identifiable intangible assets and long-lived assets in relation to the estimated undiscounted cash flows of the underlying assets if impairment indicators are present. If the undiscounted expected cash flows are less than the carrying amount, an impairment loss is recognized to reduce the carrying amount to fair value (see Note 6).

The Companies'

Notes to Combined Financial Statements (continued)

2. Significant Accounting Policies (continued)

Research and Development

Research and development costs are charged to expense as incurred.

Advertising Costs

Advertising costs are included in selling and promotion in the period incurred and approximated \$48.9 million and \$79.9 million for the years ended December 31, 2014 and 2013, respectively.

Revenue Recognition

Revenue from sales of products is recognized at the time title passes to the customer, which generally occurs upon receipt by the customer. Rebates that may be due upon sale by distributors to their customers and estimated sales returns are recorded at the time that revenue is recognized.

In limited circumstances, where a new product is not an extension of an existing line of product or no historical experience with products in a similar therapeutic category exists, revenue is deferred until the right of return no longer exists or sufficient historical experience to estimate sales returns is developed.

The Companies establish accruals for returns, chargebacks, Medicaid, Medicare and commercial rebates in the same period as the related sales are recognized. The accruals reduce revenues. Accrued returns are included in receivables. Rebate and chargeback accruals are included in accrued expenses. At the time a rebate or chargeback payment is made or a product return is received, which occurs after the related sale, the Companies record a reduction to accrued expenses and, at the end of each reporting period, adjust accrued expenses for differences between estimated and actual payments. Due to estimates and assumptions inherent in determining the amount of returns, chargebacks and rebates, the actual amount of product returns and claims for chargebacks and rebates may be different from estimates.

In 2012, The Centers for Medicare and Medicaid Services issued a proposed rule which clarifies how certain rebates should be calculated. If that proposed rule becomes effective in its current form, the Companies would be required to record additional rebates of \$264.4 million relating to the years ending December 31, 2010 through December 31, 2014.

The Companies'

Notes to Combined Financial Statements (continued)

2. Significant Accounting Policies (continued)

The Companies record rebate accruals on the value of inventory held within the distribution channel that has not been consumed by the end customer as of a reporting date. The Companies regularly review information to confirm amounts of inventory in the distribution channel such as data from several large customers' inventory management systems, and for other customers, data from third parties to help understand the amount of inventory held by retail.

Royalty revenue from the licensing of product rights is recorded over the periods earned and is classified as other operating income (see Note 11).

Shipping and Handling Costs

All shipping and handling costs are included in cost of sales.

Income Taxes

PRA Holdings, Inc. and its subsidiaries file tax returns and the related tax provision is included in the accompanying financial statements. Deferred taxes for PRA Holdings, Inc. are recognized for the future tax effects of temporary differences between financial and income tax reporting based on enacted tax laws and rates expected to be in effect when the temporary differences reverse.

Earnings and losses of the partnerships flow through to the partners' tax returns. With the exception of a minimal amount of entity-level state income taxes, the partnerships are not subject to any federal or state income taxes, nor are they entitled to any financial statement tax benefits resulting from operating losses. Accordingly, the accompanying financial statements include a tax provision only for entity-level state income taxes related to the partnerships. Payments made to taxing authorities on behalf of the partners related to partnership income are recorded as capital distributions to the partners.

Business Concentrations

There is no single geographic concentration of sales or related accounts receivable in the United States. The Companies sell a significant portion of their products to third-party resellers and, as a result, maintain individually significant receivable balances with those resellers.

The Companies'

Notes to Combined Financial Statements (continued)

2. Significant Accounting Policies (continued)

The three largest customers accounted for 88% of accounts receivable-trade as of December 31, 2014 and 2013, as well as 89% of gross sales for the years ended December 31, 2014 and 2013. Receivables generally are due within 35 days.

Credit is extended to customers based on an evaluation of their financial condition and collateral is not required. The evaluation of the financial condition of customers is performed to reduce the risk of loss. The Companies maintain allowances for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. Past due status of accounts receivable is determined primarily based upon contractual terms and uncollectible trade accounts receivable are written off once it is deemed that the accounts will not be collected. Account write-offs have historically been de-minimis.

Revenue from the sales of the Companies' OxyContin® Tablets (OxyContin) product was 89% and 91% of gross sales for the years ended December 31, 2014 and 2013, respectively.

As of December 31, 2014, the Companies' workforce did not include union employees.

Fair Values of Financial Instruments

Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value by establishing a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets that are available at the measurement date for identical assets or liabilities.

Level 2 – Quoted prices of similar assets or liabilities in active markets or quoted prices for identical or similar assets in markets that are not active.

Level 3 – Prices or valuations where there is little if any market activity and require inputs that are significant and unobservable.

The Companies'

Notes to Combined Financial Statements (continued)

2. Significant Accounting Policies (continued)

The Companies' financial instruments include cash and cash equivalents, accounts and loans receivable and accounts payable. All of these financial instruments are accounted for on an historical cost basis, which due to the nature of these instruments, approximates fair value at the balance sheet dates. The fair values of marketable securities are determined by quoted prices, in active markets, for each specific security (Level 1).

Subsequent Events

The Companies have evaluated subsequent events through April 1, 2015, which represents the date the financial statements were available to be issued and concluded that there are no significant subsequent events that would have a material impact on the Companies' combined financial statements.

Accounting Developments

In February 2013, the Financial Accounting Standards Board (FASB) issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires reporting the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified to net income in its entirety as well as additional disclosure requirements for other amounts which require reclassification under U.S. GAAP. The Companies adopted this guidance effective January 1, 2014 and it did not have an impact on the Companies' combined financial statements.

In February 2013, the FASB issued ASU 2013-03 to clarify the scope and applicability of a disclosure exemption for nonpublic entities. The Companies adopted this guidance effective January 1, 2013, and it did not have an impact on the Companies' financial position or results of operations.

In April 2014, the FASB issued amended guidance related to discontinued operations. The new guidance limits the presentation of discontinued operations to business circumstances when the disposal of the business operation represents a strategic shift that has had or will have a major effect on operations and financial results. This guidance is effective for fiscal years beginning January 1, 2015. The Companies believe that the adoption of this new standard will not materially impact its combined financial statements.

The Companies'

Notes to Combined Financial Statements (continued)

2. Significant Accounting Policies (continued)

In August 2014, the FASB issued amended guidance related to disclosure of uncertainties about an entity's ability to continue as a going concern. The new guidance requires management to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and, as necessary, to provide related footnote disclosures. The guidance has an effective date of December 31, 2016. The Companies believes that the adoption of this new standard will not have a material impact on its combined financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which provides a single comprehensive model for accounting for revenue from contracts with customers and will supersede most existing revenue recognition guidance. Early adoption is not permitted. The Companies are currently evaluating the potential effect of the amended guidance on its combined financial statements. The guidance has an effective date for annual reporting periods beginning after December 15, 2017.

3. Restricted Cash

Redacted-Privilege

As of December 31, 2014 and 2013, the Companies had restricted cash of \$17.0 million and \$16.9 million, respectively, related to their cash collateralized standby letters of credit (see Note 12).

The Companies'

Notes to Combined Financial Statements (continued)

4. Receivables

| | December 31 | |
|--|-----------------------|-------------------|
| | 2014 | 2013 |
| | <i>(In Thousands)</i> | |
| Accounts receivable – trade, net | \$ 115,753 | \$ 134,502 |
| Accounts receivable – associated companies | 39,650 | 26,900 |
| Other receivables | 2,559 | 5,417 |
| | \$ 157,962 | \$ 166,619 |

Accounts receivable – trade are net of allowances for doubtful accounts, sales returns and customer payment discounts of \$93.3 million and \$126.9 million at December 31, 2014 and 2013, respectively.

5. Inventories

| | December 31 | |
|-----------------|-----------------------|------------------|
| | 2014 | 2013 |
| | <i>(In Thousands)</i> | |
| Raw materials | \$ 14,416 | \$ 26,510 |
| Work in process | 15,233 | 7,441 |
| Finished goods | 19,092 | 22,891 |
| | \$ 48,741 | \$ 56,842 |

The Companies'

Notes to Combined Financial Statements (continued)

6. Intangible Assets

| | December 31, 2014 | | December 31, 2013 | |
|-------------------------------------|-------------------|--------------------------|-------------------|--------------------------|
| | Historical Cost | Accumulated Amortization | Historical Cost | Accumulated Amortization |
| <i>(In Thousands)</i> | | | | |
| Assets subject to amortization: | | | | |
| Marketing rights – Dilaudid® | \$ 41,436 | \$ 17,483 | \$ 48,617 | \$ 14,653 |
| Patent rights – OxyContin | 23,982 | 11,580 | 23,982 | 7,362 |
| Patent rights – Hysingla® | 7,704 | – | – | – |
| Patent rights – BUTRANS® | 815 | 544 | 815 | 407 |
| | 73,937 | 29,607 | 73,414 | 22,422 |
| Assets not subject to amortization: | | | | |
| Trademarks and product rights | 64,917 | – | 64,917 | – |
| | 64,917 | – | 64,917 | – |
| | \$ 138,854 | \$ 29,607 | \$ 138,331 | \$ 22,422 |

In December 2007, 3XP acquired the rights to certain Dilaudid® and Dilaudid® HP pain medications in the United States, its territories and possessions for \$50.0 million. In March 2008, 3XP purchased for an additional \$45.5 million the United States rights to the remaining Dilaudid and Dilaudid HP pain medications not previously acquired and assumed liability for returns of products sold prior to its acquisition of \$3.6 million. Those payments were capitalized and were being amortized over their estimated useful lives. In 2014 and 2013, based on indicators of impairment, specifically a significant decrease in sales from 2013 to 2014 and 2012 to 2013, respectively, as well as lower long term sales projections, the Companies estimated future cash flows to evaluate the fair value of the capitalized rights to Dilaudid and Dilaudid HP pain medications. As a result of these evaluations those assets were written down to their fair value of \$24.0 million and \$34.0 million as of December 31, 2014 and 2013, respectively, and an impairment charge of \$7.2 million and \$50.5 million was recognized in Other Operating Income for the years ended December 31, 2014 and 2013, respectively. The remaining capitalized amounts are being amortized over their estimated useful lives of eight years through the end of 2022.

The Companies'

Notes to Combined Financial Statements (continued)

6. Intangible Assets (continued)

When the Companies are required to determine the fair value of intangible assets the Companies use a discounted cash flow method. The Companies start with a forecast of all expected net cash flows associated with the asset including a terminal value and then apply an asset specific discount rate to arrive at a net present value amount. Some of the more significant estimates and assumptions inherent in this approach include: the amount and timing of the projected cash flows, which includes a decline in annual sales of 10% per year, the discount rate of 10.5% which seeks to reflect the various risks inherent in the projected cash flows, and the tax rate. The fair value measurements used in the calculation are all Level 3.

Redacted

The Companies'

Notes to Combined Financial Statements (continued)

6. Intangible Assets (continued)

Redacted

7. Other Assets

| | December 31 | |
|--|-----------------------|------------------|
| | 2014 | 2013 |
| | <i>(In Thousands)</i> | |
| Prepaid rent | \$ 10,385 | \$ 11,904 |
| Lease security deposit | 6,000 | 6,000 |
| Loan receivable (<i>see Note 18</i>) | 2,500 | 2,750 |
| Other assets | 4,932 | 3,310 |
| | \$ 23,817 | \$ 23,964 |

The Companies'

Notes to Combined Financial Statements (continued)

8. Property and Equipment

| | December 31 | |
|---------------------------------|-----------------------|-------------------|
| | 2014 | 2013 |
| | <i>(In Thousands)</i> | |
| Land and buildings | \$ 44,467 | \$ 54,043 |
| Leasehold improvements | 35,690 | 78,171 |
| Machinery and equipment | 119,297 | 146,282 |
| Computer software and equipment | 196,322 | 194,217 |
| Furniture and fixtures | 15,470 | 15,520 |
| Construction in progress | 40,709 | 7,946 |
| | 451,955 | 496,179 |
| Accumulated depreciation | (302,415) | (343,650) |
| | \$ 149,540 | \$ 152,529 |

Depreciation expense for the years ended December 31, 2014 and 2013, was \$23.9 million and \$24.7 million, respectively.

The Companies' primary manufacturing location is in Wilson, North Carolina. The Companies commenced construction of a manufacturing facility in Treyburn, North Carolina in 2013 and plan to commence occupancy in mid-2015, the manufacture of validation batches in late 2015 and the supply of commercial product by 2017. The companies are executing against a plan to sell their Totowa manufacturing facility which is expected to be completed by the end of 2015. As a result, the carrying value of the Totowa facility of \$17.2 million, which is lower than the fair value less cost to sell, has been classified as an asset held for sale.

The carrying values as of December 31, 2014 of the major classes of assets held for sale are as follows:

| | |
|-------------------------|------------------|
| Land | \$ 2,476 |
| Buildings | 13,985 |
| Machinery and equipment | 705 |
| | \$ 17,166 |

The Companies'

Notes to Combined Financial Statements (continued)

9. Accrued Expenses and Other Liabilities

| | December 31 | |
|---------------------------------|-----------------------|-------------|
| | 2014 | 2013 |
| | <i>(In Thousands)</i> | |
| Rebates | \$ 390,718 | \$ 332,927 |
| Bonuses, salaries, and benefits | <u>63,309</u> | 61,858 |
| Redacted-Privilege | | |
| Royalty expenses | 32,355 | 30,614 |
| Health care reform fee | 30,899 | 2,854 |
| Other accrued expenses | 19,913 | 12,586 |
| Due to associated companies | <u>10,567</u> | 14,531 |
| Redacted-Privilege | | |

10. Other Long-term Liabilities

| | December 31 | |
|--|-----------------------|-------------|
| | 2014 | 2013 |
| | <i>(In Thousands)</i> | |
| Employee benefits liability (<i>see Note 14</i>) | \$ 159,993 | \$ 132,631 |
| Other long-term liabilities | <u>30,643</u> | 30,460 |
| | \$ 190,636 | \$ 163,091 |

The Companies'

Notes to Combined Financial Statements (continued)

11. Other Operating Income, net

| | Year Ended December 31 | |
|--|-------------------------------|-------------|
| | 2014 | 2013 |
| | <i>(In Thousands)</i> | |
| OxyContin royalty income (<i>see Note 18</i>) | \$ (46,468) | \$ (48,465) |
| Redacted-Privilege | | |
| Insurance recoveries (<i>see Note 20</i>) | (315) | (990) |
| Gain on disposal of marketable securities (<i>see Note 19</i>) | — | (138,015) |
| Impairment of intangible assets | 7,181 | 50,500 |
| Other | (4,302) | (761) |
| Redacted-Privilege | | |

12. Debt

On November 14, 2012, the Companies renewed their existing credit facility (the Credit Facility) through November 14, 2015. The commitment under the Credit Facility was \$45 million as of December 31, 2014 and 2013. The Credit Facility is used to issue letters of credit and may be used for other general corporate purposes. The Credit Facility provides the borrowers a choice of paying interest based on the Eurodollar Rate or at the Base Rate (each as defined in the Credit Facility), plus in each case, an applicable margin. All borrowings (including the issuance of letters of credit) under the Credit Facility require cash collateralization. As of December 31, 2014 and 2013 there were no outstanding borrowings.

The Companies had \$15.3 million and \$15.2 million of cash collateralized standby letters of credit outstanding as of December 31, 2014 and 2013, respectively (see Note 3). These were collateralized with restricted cash of \$17.0 million and \$16.9 million as of December 31, 2014 and 2013, respectively.

In February 2015, PharmIT Inc. and PharmIT L.P. were added as guarantors to the Credit Facility.

The Companies'

Notes to Combined Financial Statements (continued)

13. Income Taxes

Significant components of the income tax provision (benefit) are as follows:

| | Year Ended December 31 | |
|-----------|-------------------------------|----------------|
| | 2014 | 2013 |
| | <i>(In Thousands)</i> | |
| Current: | | |
| Federal | \$ 737 | \$ 1,819 |
| State | 704 | 609 |
| | 1,441 | 2,428 |
| Deferred: | | |
| Federal | 132 | (1,299) |
| State | (5) | (300) |
| | 127 | (1,599) |
| Total | \$ 1,568 | \$ 829 |

Significant components of the Companies' deferred tax assets and liabilities are as follows:

| | December 31 | |
|--|-----------------------|-----------------|
| | 2014 | 2013 |
| | <i>(In Thousands)</i> | |
| Deferred tax assets: | | |
| Employee benefit programs | \$ 731 | \$ 912 |
| Property and equipment | 4,794 | 5,458 |
| Accumulated other comprehensive income | 2,087 | 2,183 |
| Other | 6 | 43 |
| Total deferred tax assets | 7,618 | 8,596 |
| Deferred tax liabilities: | | |
| Pension | 610 | 1,349 |
| Other | 310 | 327 |
| Total deferred tax liabilities | 920 | 1,676 |
| Net deferred tax assets before valuation allowance | 6,698 | 6,920 |
| Valuation allowance | — | — |
| Net deferred tax assets | \$ 6,698 | \$ 6,920 |

The Companies'

Notes to Combined Financial Statements (continued)

13. Income Taxes (continued)

Income tax expense differs from the amount computed at the statutory U.S. federal income tax rate principally due to state income taxes and partnership income or losses, which are not included in the Companies' tax returns.

14. Pension and Postretirement Benefit Plans

Certain entities included in the combined financial statements provide retirement benefits to substantially all U.S. non-union employees through The Purdue Pharma L.P. Pension Plan (PPLP Plan), a noncontributory defined benefit pension plan. A separate defined benefit plan, The P.F. Laboratories, Inc. Pension Plan (PF Labs Plan), is maintained for employees that had been covered under a collective bargaining agreement that is based on negotiated benefits and years of service. Effective June 30, 2009, all then actively employed participants of the PF Labs Plan were terminated. There have been no participants employed or accruing benefits under the plan since that time.

The PPLP Pension Plan was amended effective January 1, 2013. If an employee was actively employed on January 1, 2013 and on that date had reached their 45th birthday and their age plus years of service total 50 or more, they will continue to participate in the Pension Plan. For all other employees, as of January 1, 2013, PPLP made additional contributions into their 401(k) Plan and they ceased to accrue benefits in the Pension Plan as of December 31, 2012. The benefit that they have accrued in the Pension Plan as of December 31, 2012, once vested, will be payable upon retirement. Other than these additional 401(k) plan contributions, the current 401(k) Plan remains unchanged.

Effective January, 1, 2015, the postretirement plan was amended to reduce the future eligibility for post 65 coverage and post 65 benefit amounts to a subset of the population. These amendments have been incorporated into the measurement as of December 31, 2014.

The Companies'

Notes to Combined Financial Statements (continued)

14. Pension and Postretirement Benefit Plans (continued)

The annual benefit cost of the pension plans and the postretirement plans for the years ended December 31, 2014 and 2013 are as follows:

| | Pension Plans | | Postretirement Plans | |
|--|------------------|------------------|----------------------|------------------|
| | Years Ended | | Years Ended | |
| | December 31 | December 31 | December 31 | December 31 |
| <i>(In Thousands)</i> | | | | |
| Components of net periodic benefit cost | | | | |
| Service cost | \$ 11,462 | \$ 12,140 | \$ 6,150 | \$ 8,102 |
| Interest cost | 14,328 | 13,049 | 3,519 | 3,644 |
| Expected return on plan assets | (18,346) | (15,707) | — | — |
| Amortization of net transition obligation | — | — | 17 | 25 |
| Amortization of prior service cost | 78 | 78 | (206) | (132) |
| Amortization of prior experience loss | 3,056 | 7,287 | 322 | 742 |
| Net amortization and deferral | — | — | — | 652 |
| Adjustment for additional expense | — | — | 158 | 213 |
| Curtailment loss (gain) | 84 | — | (234) | — |
| Net periodic benefit cost | \$ 10,662 | \$ 16,847 | \$ 9,726 | \$ 13,246 |

Amounts expected to be recognized in net periodic benefit cost in the coming year for the Companies' pension plans and the postretirement plans (in thousands):

| | |
|---|----------|
| Amortization of net actuarial losses | \$ 7,729 |
| Amortization of prior service cost | (1,987) |
| Amortization of net transition obligation | — |

Weighted-average assumptions for the net periodic benefit cost:

| | Pension Plans | | Postretirement Plans | |
|--------------------------------|---------------|-------------|----------------------|-------------|
| | Years Ended | | Years Ended | |
| | December 31 | December 31 | December 31 | December 31 |
| | 2014 | 2013 | 2014 | 2013 |
| Discount rate | 4.80% / 4.15% | 3.95% | 5.20% | 4.30% |
| Expected return on plan assets | 7.00% | 7.00% | N/A | N/A |
| Rate of compensation increase | 4.50% | 4.50% | 4.50% | 4.50% |

The Companies'

Notes to Combined Financial Statements (continued)

14. Pension and Postretirement Benefit Plans (continued)

Due to a curtailment triggered as of June 30, 2014, a discount rate of 4.80% was used for the period of January 1, 2014 through June 30, 2014. A discount rate of 4.15% was used for the period July 1, 2014 through December 31, 2014.

The following table displays the assumed health care cost trend rates:

| | 2014 | | | 2013 | | |
|---|-------------|-------------|-------------|------|------|------|
| | <65 | >65 | AARP | <65 | >65 | AARP |
| Health care cost trend rate assumed for 2015 | 6.5% | 6.1% | 6.1% | 6.8% | 6.3% | 6.3% |
| Rate to which the cost trend rate is assumed to decline (ultimate trend) | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Year the rate reaches the ultimate trend rate | 2020 | 2020 | 2020 | 2020 | 2020 | 2020 |

A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

| | 1-Percentage Point Increase | 1-Percentage Point Decrease |
|--|-----------------------------|-----------------------------|
| | (In Thousands) | |
| Effect on total of service and interest cost components in the year ended December 31, 2014 | \$ 2,155 | \$ (1,631) |
| Effect on accumulated post retirement benefit obligation as of December 31, 2014 | \$ 9,281 | \$ (7,354) |

The following table sets forth information related to the benefit obligation and the fair value of plan assets at December 31, 2014 and 2013, for the Companies' defined benefit pension and postretirement plans:

The Companies'

Notes to Combined Financial Statements (continued)

14. Pension and Postretirement Benefit Plans (continued)

| | Pension Plans | | Postretirement Plans | |
|--|----------------------------|---------------------------|---------------------------|---------------------------|
| | December 31 | | December 31 | |
| | 2014 | 2013 | 2014 | 2013 |
| <i>(In Thousands)</i> | | | | |
| Change in benefit obligation | | | | |
| Benefit obligation at beginning of year | \$ 311,371 | \$ 337,439 | \$ 76,453 | \$ 89,827 |
| Service cost | 11,462 | 12,140 | 6,150 | 8,102 |
| Interest cost | 14,328 | 13,049 | 3,519 | 3,644 |
| Amendments | — | — | (25,297) | (992) |
| Impact of curtailment | (4,845) | — | (8,006) | — |
| Actuarial (gain) loss | 49,280 | (38,432) | 7,794 | (21,599) |
| Transfer of obligation to associated entities | (217) | (270) | (59) | (100) |
| Benefits paid | (13,250) | (12,555) | (1,843) | (2,429) |
| Benefit obligation at end of year | <u>\$ 368,129</u> | <u>\$ 311,371</u> | <u>\$ 58,711</u> | <u>\$ 76,453</u> |
| Change in plan assets | | | | |
| Fair value of plan assets at beginning of year | \$ 253,002 | \$ 225,098 | \$ — | \$ — |
| Actual return on plan assets | 13,693 | 31,223 | — | — |
| Employer contribution | 11,156 | 9,311 | 1,843 | 2,429 |
| Transfer of assets to associated entities | (176) | (75) | — | — |
| Benefits paid | (13,250) | (12,555) | (1,843) | (2,429) |
| Fair value of plan assets at end of year | <u>\$ 264,425</u> | <u>\$ 253,002</u> | <u>\$ —</u> | <u>\$ —</u> |
| Funded status of plan at end of year | <u>\$ (103,704)</u> | <u>\$ (58,369)</u> | <u>\$ (58,711)</u> | <u>\$ (76,453)</u> |

The Companies'

Notes to Combined Financial Statements (continued)

14. Pension and Postretirement Benefit Plans (continued)

| | Pension Plans | | Postretirement Plans | |
|---|---------------------|--------------------|----------------------|--------------------|
| | December 31 | | December 31 | |
| | 2014 | 2013 | 2014 | 2013 |
| <i>(In Thousands)</i> | | | | |
| Amounts recognized in the Companies' balance sheet consist of: | | | | |
| Prepaid pension cost | \$ – | \$ 128 | \$ – | \$ – |
| Current liabilities | – | – | (2,422) | (2,320) |
| Non-current liabilities | (103,704) | (58,497) | (56,289) | (74,133) |
| Total recognized in combined balance sheet | <u>\$ (103,704)</u> | <u>\$ (58,369)</u> | <u>\$ (58,711)</u> | <u>\$ (76,453)</u> |
| Amounts recognized in accumulated other comprehensive loss consist of: | | | | |
| Net actuarial loss | \$ 106,600 | \$ 60,609 | \$ 394 | \$ 1,036 |
| Prior service cost | 457 | 620 | (27,243) | (2,388) |
| Transition obligation | – | – | – | 17 |
| Total before tax effects | <u>\$ 107,057</u> | <u>\$ 61,229</u> | <u>\$ (26,849)</u> | <u>\$ (1,335)</u> |
| Accumulated benefit obligation | <u>\$ 347,067</u> | <u>\$ 285,250</u> | <u>\$ –</u> | <u>\$ –</u> |
| Changes in Plan assets and benefit obligations recognized in other comprehensive loss and net income: | | | | |
| Net periodic benefit cost | \$ 10,662 | \$ 16,848 | \$ 9,726 | \$ 13,246 |
| Net actuarial (gain) loss | 49,089 | (54,151) | (371) | (21,835) |
| Amortization of net actuarial loss | (3,056) | (7,288) | (322) | (1,395) |
| Impact of transfers | (42) | – | 51 | – |
| Prior service cost | (85) | – | (25,062) | (990) |
| Amortization of prior service cost | (78) | (78) | 207 | 132 |
| Amortization of transition obligation | – | – | (17) | (25) |
| Total recognized in other comprehensive loss, before tax | <u>\$ 45,828</u> | <u>\$ (61,517)</u> | <u>\$ (25,514)</u> | <u>\$ (24,113)</u> |
| Total recognized in net periodic cost and other comprehensive loss | <u>\$ 56,490</u> | <u>\$ 44,669</u> | <u>\$ 15,788</u> | <u>\$ 10,867</u> |
| Weighted-average assumptions as of December 31 for the benefit obligation: | | | | |
| Discount rate | 3.85% | 4.80% | 4.00% | 5.20% |
| Rate of compensation increase | 4.00 | 4.50 | 4.00 | 4.50 |

The Companies'

Notes to Combined Financial Statements (continued)

14. Pension and Postretirement Benefit Plans (continued)

The expected long-term rate of return assumption is based on a building block approach, determining risk-free asset return assumptions, and applying a weighted average methodology to the proportion of plan assets in each applicable asset class.

At December 31, 2014 and 2013, both the PPLP Plan and the PF Labs Plan had accumulated benefit obligations in excess of plan assets.

Estimated future cash flow information is as follows:

| | Pension Plans | Postretirement Plans |
|---|--------------------------|---------------------------------|
| | <i>(In Thousands)</i> | |
| Employer Contributions | | |
| For the year ending December 31, 2015 | \$ 12,620 | \$ — |
| Expected Benefit Payments | | |
| For the year ending December 31, 2015 | 14,542 | 2,422 |
| For the year ending December 31, 2016 | 17,050 | 2,301 |
| For the year ending December 31, 2017 | 12,436 | 2,293 |
| For the year ending December 31, 2018 | 16,615 | 2,354 |
| For the year ending December 31, 2019 | 16,914 | 2,501 |
| For the years ending December 31, 2020–2024 | 101,585 | 15,165 |

The PPLP Plan

With the assistance of its investment manager, consultant and actuary, the PPLP Plan pursues a risk-conscious asset mix of 1940 Act Mutual Funds (that invest in equities, bonds and other investments, as detailed below) against a long-term rate-of-return-on-assets assumption of 7.00%.

The PPLP Plan's objectives include providing real growth of the plan through the total return on principal and income; preserving the assets and minimizing risk in the plan with appropriate diversification and investment strategies; and providing a source of retirement income for its participants and beneficiaries.

The Companies'

Notes to Combined Financial Statements (continued)

14. Pension and Postretirement Benefit Plans (continued)

The fair value of PPLP pension assets by asset category at December 31, 2014, was as follows:

| Amounts | Level 1 | Level 2 | Level 3 | Total |
|--------------|----------------|---------|---------|------------|
| | (In Thousands) | | | |
| Mutual funds | \$ 257,622 | \$ — | \$ — | \$ 257,622 |
| Total | \$ 257,622 | \$ — | \$ — | \$ 257,622 |

The fair value of PPLP pension assets by asset category at December 31, 2013, was as follows:

| Amounts | Level 1 | Level 2 | Level 3 | Total |
|--------------|----------------|---------|---------|------------|
| | (In Thousands) | | | |
| Mutual funds | \$ 246,767 | \$ — | \$ — | \$ 246,767 |
| Total | \$ 246,767 | \$ — | \$ — | \$ 246,767 |

Mutual funds: Valued at the net asset value of shares held by the PPLP Plan at year end based on quoted prices in an active market.

The PPLP Plan's current asset allocation and permissible ranges at December 31, 2014 are as follows. The PPLP Plan manages to approximate this specific allocation.

| | Amount | % Allocation (Target) |
|--------------|----------------|--------------------------|
| | (In Thousands) | |
| Mutual funds | \$ 257,622 | 100% |
| Total | \$ 257,622 | 100% |

The PF Labs Plan

With the assistance of its investment manager, consultant and actuary, the PF Labs Plan pursues a risk-conscious asset mix of 1940 Act Mutual Funds (that invest in equities and securities, as detailed below) against a long-term rate-of-return-on-assets assumption of 6.00%.

The Companies'

Notes to Combined Financial Statements (continued)

14. Pension and Postretirement Benefit Plans (continued)

The PF Labs Plan's objectives include providing real growth of the plan through the total return on principal and income; preserving the assets and minimizing risk in the plan with appropriate diversification and investment strategies; and providing a source of retirement income for its participants and beneficiaries.

The fair value of PF Labs pension assets by asset category at December 31, 2014 was as follows:

| Amounts | Level 1 | Level 2 | Level 3 | Total |
|----------------|-----------------------|----------------|----------------|--------------|
| | <i>(In Thousands)</i> | | | |
| Mutual funds | \$ 6,803 | \$ — | \$ — | \$ 6,803 |
| Total | \$ 6,803 | \$ — | \$ — | \$ 6,803 |

The fair value of PF Labs pension assets by asset category at December 31, 2013 was as follows:

| Amounts | Level 1 | Level 2 | Level 3 | Total |
|----------------|-----------------------|----------------|----------------|--------------|
| | <i>(In Thousands)</i> | | | |
| Mutual funds | \$ 6,235 | \$ — | \$ — | \$ 6,235 |
| Total | \$ 6,235 | \$ — | \$ — | \$ 6,235 |

Mutual funds: Valued at the net asset value of shares held by the PF Labs Plan at year end based on quoted prices in an active market.

The PF Labs Plan's current asset allocation, targets and permissible ranges at December 31, 2014 are as follows. The PF Labs Plan manages to approximate this allocation.

| | Amount | % Allocation (Target) |
|--------------|-----------------------|----------------------------------|
| | <i>(In Thousands)</i> | |
| Mutual funds | 6,803 | 100% |
| Total | 6,803 | 100% |

The Companies'

Notes to Combined Financial Statements (continued)

15. Defined Contribution Plans

Certain entities included in the combined financial statements also sponsor a defined contribution 401(k) savings plan available to domestic non-union employees who meet certain minimum age and service requirements. Employer matching contributions through December 31, 2014 are 50% of each employee's contributions to the plan, limited to a maximum of 6% of each employee's covered earnings. The net cost of these plans totaled \$10.2 million and \$10.1 million for the years ended December 31, 2014 and 2013, respectively. The 2014 and 2013 costs included \$4.3 million and \$4.1 million, respectively, relating to additional contributions made by PPLP as a result of an amendment to the PPLP Pension Plan (see Note 14).

Certain entities included in the combined financial statements established defined contribution plans covering certain salaried employees. Awards under the plans vest over either a three or five-year period. The expense recognized for the years ended December 31, 2014 and 2013, was \$6.4 million and \$7.8 million, respectively.

The Companies'

Notes to Combined Financial Statements (continued)

16. Accumulated Other Comprehensive Income

The changes in the accumulated other comprehensive loss after tax for the years ended December 31, 2014 and 2013, were:

| | Employee Benefit Plans | Available for Sale Securities | Total Accumulated Other Comprehensive Loss |
|--|---------------------------------------|--|---|
| | <i>(In Thousands)</i> | | |
| Balance at December 31, 2012 | \$ (142,095) | \$ 97,469 | \$ (44,626) |
| Other comprehensive gain before reclassifications | 74,740 | 40,546 | 115,286 |
| Amounts reclassified out of other comprehensive loss: | | | (87,825) |
| Infinity sale of securities | – | (138,015) | (138,015) |
| Prior service cost | 990 | – | 990 |
| Actuarial losses | 8,654 | – | 8,654 |
| Balance at December 31, 2013 | <u>(57,711)</u> | <u>–</u> | <u>(57,711)</u> |
| Other comprehensive loss before reclassifications | (48,814) | – | (48,814) |
| Amounts reclassified out of other comprehensive loss: | | | |
| Prior service cost | 25,147 | – | 25,147 |
| Actuarial losses | 3,257 | – | 3,257 |
| Balance at December 31, 2014 | \$ (78,121) | \$ – | \$ 78,121) |

17. Restructuring Charges

During 2014, the Companies incurred restructuring expenses relating to downsizing and streamlining of operations. The restructuring expenses were principally related to termination benefits for approximately 260 employees. Substantially all of the balance of the accrued restructuring expenses of \$7.0 million at December 31, 2014 will be paid during 2015.

The Companies'

Notes to Combined Financial Statements (continued)

17. Restructuring Charges (continued)

Also as part of the 2014 restructurings and the reduction in headcount, the Companies reviewed their long-lived assets and determined that certain assets used in research and development were deactivated or are no longer useable. The Companies recognized accelerated depreciation of \$8.1 million for the year ended December 31, 2014.

Details of the restructuring charges for the year ended December 31, 2014, are as follows:

| | Original Charge | Utilized | | Balance at December 31, 2014 | |
|--------------------------------------|------------------------|------------------|-----------------|-------------------------------------|--|
| | | Cash | Non-Cash | | |
| <i>(In thousands)</i> | | | | | |
| Severance and other employee costs | \$ 27,987 | \$ 20,956 | \$ — | \$ 7,031 | |
| Write down of property and equipment | 8,065 | — | 8,065 | — | |
| | \$ 36,052 | \$ 20,956 | \$ 8,065 | \$ 7,031 | |

18. Related Party Transactions

Certain entities in the combined financial statements are parties to license or royalty arrangements, for the manufacture and sale of various products to entities owned directly or indirectly for the benefit of the families of certain directors of the Companies. Royalty income under those agreements approximated \$46.5 million and \$48.5 million for the years ended December 31, 2014 and 2013, respectively and is included in Other Operating Income.

An independent associated company provides security services and environmental health and safety consulting to certain entities included in the combined financial statements. The value of these goods and services approximated \$34.2 million and \$39.1 million for the years ended December 31, 2014 and 2013, respectively and is included in General and administrative expenses.

The Companies'

Notes to Combined Financial Statements (continued)

18. Related Party Transactions (continued)

An entity included in the combined financial statements purchased raw materials used in the production of their products from an associated company that is not included in the combined financial statements. Those purchases totaled \$52.2 million and \$53.0 million for the years ended December 31, 2014 and 2013, respectively are included in Cost of Sales. The amount due to the associated company for those purchases was \$0.6 million and \$0.4 million as of December 31, 2014 and 2013, respectively and is included in Accrued Expenses and Other Liabilities.

An entity included in the combined financial statements sold finished goods of \$31.8 million and \$26.9 million, for the years ended December 31, 2014 and 2013, respectively, to an associated company that is not included in the combined financial statements. Amounts due from the associated company for those sales were \$5.8 million and \$3.7 million as of December 31, 2014 and 2013, respectively and are included in Receivables.

PPLP has a loan receivable from an independent associated company, which bears interest payable quarterly at 3.28% per annum and matures on September 30, 2020. The balance outstanding at December 31, 2014 and 2013, was \$2.5 million and \$2.8 million, respectively, and is included in Other Assets.

Effective January 1, 2006, PPLP entered into a lease agreement expiring in 2020 (the OSR Lease) to lease certain floors of One Stamford Forum located in Stamford, Connecticut, from One Stamford Realty L.P. (OSR). In conjunction with the execution of the OSR Lease, a security deposit of \$6.0 million was paid by PPLP which is to be returned to PPLP in 2016, provided that at such time no event of default exists. Further, PPLP paid certain lease related expenses in the amount of \$11.0 million which are being amortized over the life of the lease. The security deposit and lease related expenses made by PPLP to OSR are included in Other assets.

At December 31, 2014, future minimum lease payments under the OSR Lease are as follows (in thousands):

| | |
|------------|-----------|
| 2015 | \$ 6,406 |
| 2016 | 7,224 |
| 2017 | 7,224 |
| 2018 | 7,224 |
| 2019 | 7,224 |
| Thereafter | 7,224 |
| | <hr/> |
| | \$ 42,526 |

The Companies'

Notes to Combined Financial Statements (continued)

19. Collaboration Agreements

Redacted

The Companies'

Notes to Combined Financial Statements (continued)

19. Collaboration Agreements (continued)

Redacted

The Companies'
Notes to Combined Financial Statements (continued)

19. Collaboration Agreements (continued)

Redacted

The Companies'

Notes to Combined Financial Statements (continued)

20. Commitments and Contingencies

Leases

Aggregate future lease payments under non-cancelable operating leases with initial or remaining terms of more than one year at December 31, 2014 (including the OSR Lease) are as follows (in thousands):

| | |
|------------|-------------------|
| 2015 | \$ 17,799 |
| 2016 | 19,366 |
| 2017 | 18,000 |
| 2018 | 17,202 |
| 2019 | 17,145 |
| Thereafter | <u>16,824</u> |
| | <u>\$ 106,336</u> |

Lease expense approximated \$25.8 million and \$18.3 million for the years ended December 31, 2014 and 2013, respectively.

Insurance

Insurance coverage for the Companies is purchased subject to market conditions existing at the time of purchase (including cost and availability). The market for particular types of insurance can be restrictive in terms and coverage, cost and available limits. As a result of these limits, the Companies may be self-insured. The market for product liability insurance, in particular, is restrictive in policy terms, available limits and cost. On October 1, 2001, the Companies began to self-insure product liability claims. The Companies' mix between self-insured and third party insured risks is evaluated at each renewal. If the Companies incur substantial liabilities that exceed the Companies' available insurance, if any, and that are in excess of existing accruals, there could be a materially adverse effect to the Companies' financial position, operations and cash flows.

The Companies'
Notes to Combined Financial Statements (continued)

20. Commitments and Contingencies (continued)

Redacted-Privilege

The Companies'
Notes to Combined Financial Statements (continued)

20. Commitments and Contingencies (continued)

Redacted-Privilege

The Companies'
Notes to Combined Financial Statements (continued)

20. Commitments and Contingencies (continued)

Redacted-Privilege

The Companies'

Notes to Combined Financial Statements (continued)

20. Commitments and Contingencies (continued)

Redacted-Privilege

The Companies'

Notes to Combined Financial Statements (continued)

20. Commitments and Contingencies (continued)

Redacted-Privilege

The Companies'

Notes to Combined Financial Statements (continued)

20. Commitments and Contingencies (continued)

Redacted-Privilege

The Companies'
Notes to Combined Financial Statements (continued)

20. Commitments and Contingencies (continued)

Redacted-Privilege

The Companies'

Notes to Combined Financial Statements (continued)

20. Commitments and Contingencies (continued)

Redacted-Privilege

The Companies'
Notes to Combined Financial Statements (continued)

20. Commitments and Contingencies (continued)

Redacted-Privilege

The Companies'

Notes to Combined Financial Statements (continued)

21. Common Stock

Common stock is comprised of the following:

| | Year ended December 31 | |
|---|-------------------------------|-------------|
| | 2014 | 2013 |
| | <i>(In Thousands)</i> | |
| Common stock, \$1 par value – PRA Holdings, Inc. | \$ 1 | \$ 1 |
| Authorized shares – 500 | – | – |
| Issued and outstanding shares – 500 | – | – |
| Common stock, \$1 par value – Pharma Associates Inc. | 1 | 1 |
| Authorized shares – 1,000 | – | – |
| Issued and outstanding shares – 1,000 | – | – |
| Common stock, \$1 par value – IKUWA Holdings Inc. | 1 | 1 |
| Authorized shares – 1,000 | – | – |
| Issued and outstanding shares – 1,000 | – | – |
| Common stock, \$1 par value – Purdue Products Inc. | 1 | 1 |
| Authorized shares – 1,000 | – | – |
| Issued and outstanding shares – 1,000 | – | – |
| Common stock, \$1 par value – Purdue Pharmaceutical Products Inc. | 1 | 1 |
| Authorized shares – 1,000 | – | – |
| Issued and outstanding shares – 1,000 | – | – |
| | \$ 5 | \$ 5 |

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